AN ECONOMIC ANALYSIS OF THE CHILEAN PRODUCTION DEVELOPMENT CORPORATION: A CASE STUDY IN ECONOMIC COORDINATION

BY

FRANK LARUE ROBERTS

B.S., University of Arkansas, 1938
M.B.A., University of Texas, 1940

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SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS
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Recent writings concerning the economic development of underdeveloped nations have emphasized concern over the material progress of these people, both as a humanitarian end in itself and because such progress is deemed essential to a domestic and international development of commerce. The underdeveloped countries view industrialization as a means of attaining economic self-sufficiency and as a process for raising the living standards of the poverty stricken masses. These nations, over the past century, have established a series of regulatory, financial, and developmental agencies designed to meet the requirements of specific problems or specific industries. Unfortunately, these actions resulted in an endless series of regulations and agencies which failed to provide an adequate or consistent philosophy of economic organization. More recently, however, there has been a trend toward the establishment of a national development corporation for the express purpose of achieving a more effective utilization of the resources of a given nation. In each there is an implicit assumption that the economic activity of the nation, if controlled, can be developed from a primitive handicraft structure into a highly industrialized and efficient type of economic organization.

The use of an administrative agency poses innumerable political, social, and economic problems. The process of economic development alone includes most of the problems generally identified with economic analysis. Due to the scope and complexity of such a task, the present study is limited to a study of the Production Development Corporation of Chile. Furthermore, the study is confined to an analysis of the *coordinating function* of the Chilean Production Development Corporation. The study is an attempt to determine what

measures have been initiated which are designed to increase the national output; it specifically attempts to ascertain whether physical output has actually been increased or whether economic development has provided a more effective utilization of resources; and lastly, it seeks to determine the extent to which such an economic institution provides effective economic coordination for the Chilean society.

Chile created the agency known as *La Corporacion de Fomento de la Produccion* following the disastrous earthquake of January 24, 1939, although general economic instability and the relatively low standard of living had long been recognized as critical weaknesses in the economy. The recognition of such fundamental weaknesses and the popular demand for obtaining more direct participation in, and direction of the economy led the Chilean government to establish the Production Development Corporation, whose objectives are:

> ". . . to draw up a general plan for the promotion of national production intended to raise the standard of living of the population by means of the development of the natural resources of the country and by decreasing the cost of production, and to improve the condition of the balance of international payments, taking care in establishing the plan to keep a due proportion in the development of mining, agricultural, industrial and commercial activities, and attempting to satisfy the needs of the various regions of the country; . . .
>
> . . . to carry out, in collaboration with promotion institutions (public, semi-public, or private), studies intended to discover the means most adequate to create new production or improve existing means. . .
>
> . . . to conduct, in accordance with the results obtained in the studies mentioned in the foregoing clause, experiments in production or commerce on such scale and with such aid as may be deemed appropriate; . . .
>
> . . . to aid the domestic manufacture, or the importation, of machinery and other materials

> for production; . . .
>
> . . . to propose and aid in the adoption of measures intended to increase the consumption of national products or to obtain a greater participation of Chilean interests in industrial and commercial activities. . ."[1]

Although the scope of the Corporation's activities tends to include most problems of economic behavior, from a theoretical point of view, the economic functions of such an agency are to provide effective[2] operation in the process of making economic decisions, to insure effective leadership in the function of providing economic *entrepreneurship,* and to achieve an effective economic-institutional compatability where relevant to the social, political, and ethical goals of society. In addition, the enabling statutes chartering the Corporation and the announced policy of the administrative Council of the Corporation envisage an administrative control capable of fostering and strengthening the organizing forces of a competitive, free-enterprise system.

The study outlines some of the significant economic problems of Chile which emphasized the need for a more effective utilization of resources. The problems were not only indicative of an ineffective economic organization but also represented basic political and social problems for a nation striving to preserve and to enhance the traditional values of liberty and democracy.

The preliminary political proposals and the final legislative statutes establishing the Corporation as the dominant economic institution of Chile are analyzed to determine the authority, responsibility, and accountability of the Corporation. The legal, administrative, and financial characteristics of the Corporation reflect the wide scope of the charter.

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1. Cf., Secretaria General, Contraloria General de la Republica, **Recopilacion de Leyes por Orden Numerico, con Indices por Numero, Ministerias y Materias.** (Santiago, Chile: Imprenta Nascimento, 1939), pp. 88-100.

2. Effective, as used here, is to be understood as implying a minimum standard in relation to other alternatives. It includes quantitative as well as qualitative evaluation.

The plans and projects sponsored by the Corporation are analyzed to determine any significant modifications occuring in either the magnitude or technique of resource utilization. Attention is focused on the process of technological coordination as provided in the various plans and projects.

Finally, the coordinating influences of the Corporation are tested by an analysis of the Chilean economic development during the period from 1939 to 1950. The chief function of the Production Development Corporation is centered in the problem of stimulating the effective utilization of the resources of the entire nation. Technology may establish the limits of physical productivity, *ceteris paribus,* but technological development alone cannot insure an effective utilization of resources. A process of economic coordination is necessary for achieving internal and external economies for the firm, industry, and ultimately the entire nation.

VITA

Frank LaRue Roberts was born near LeFors, Texas, on March 30, 1915. After being graduated from Perryton High School in 1931 he entered Texas Technological College, Lubbock, Texas. In June, 1938 he was awarded the degree of Bachelor of Science in Business Administration by the University of Arkansas. He was awarded the degree of Master of Business Administration by the University of Texas in August, 1940.

He held a position as an accountant with the Tela Railroad Company of Tela, Honduras from June, 1939 to June, 1940. He was employed as a clearing house clerk by the Bank of America (National Trust and Savings Association) of Los Angeles, California from August to December of 1940. From January, 1940 to January, 1941 he was employed by the firm of H. B. Mills and Company, C.P.A.'s. He was on active duty with the United States Navy from January, 1941 to May, 1946 and served in the American and Asiatic Theatres.

He held a teaching assistantship at the Agricultural and Mechanical College of Texas during the spring semester of 1939; a teaching fellowship at the University of Southern California during the academic year 1940-1941; an assistant professorship in Economics and Business Administration at the College of William and Mary, 1946-1948; an instructorship in Marketing at the University of Illinois 1948-1952; and has been appointed to an associate professorship in Business Organization and Management in the College of Business Administration at the University of Nebraska.

He is a member of the American Marketing Association and of the American Economic Association.